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Dominion℠

July 22, 2005

BY OVERNIGHT MAIL
Mary Cotrell, Secretary
Massachusetts Department of
Telecommunications and Energy
One South Station
Boston, MA 02110

RE: DOCKET NO. 04-115: COMMENTS OF DOMINION RETAIL, INC. IN REPLY TO JUNE 20, 2005 TECHNICAL CONFERENCE

Dear Secretary Cotrell:

Enclosed for filing with the Massachusetts Department of Telecommunications and Energy ("Department") are an original and ten (10) copies of the above-captioned document in the referenced proceeding.

This filing was also filed electronically with the Department today by e-mail at dte.efiling@state.ma.us and to jeanne.voveris@state.ma.us.

If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

Gary A. Jeffries
Senior Counsel

Enclosures

COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Procurement of Default Service Power Supply	)	
For Residential and Small Commercial and	)	D.T.E. 04-115
Industrial Customers	)	

COMMENTS OF DOMINION RETAIL, INC. IN REPLY TO JUNE 20, 2005 TECHNICAL CONFERENCE

Dominion Retail, Inc. ("Dominion Retail" or the "Company") previously filed initial comments in this docket on January 10, 2005 ("Initial Comments"). Dominion Retail hereby incorporates by reference those Initial Comments. The Company appreciates this opportunity to provide further comment in this proceeding in response to the June 20, 2005, at which Dominion Retail was an active participant. The Company hereby respectfully submits these additional comments.

Introductory Comments

As Dominion Retail stressed previously in its Initial Comments, the largest impediment to a strong retail market for electricity is the failure of basic service pricing structures to appropriately reflect total actual market costs (including wholesale costs) associated with providing retail service to customers. The DTE should act purposefully to remedy this pricing disconnect to better enable shopping customers to adequately compare pricing options available to them from suppliers with the utility's own default customers. The revisions Dominion Retail suggests in these comments will go a long toward remedying these issues. Further, these changes can be implemented without subsidization from the ratepayers or utilities of Massachusetts.

1. **Basic Service Term:** The current six-month basic service term strongly discourages widespread switching. It effectively removes from meaningful competition multiple segments of consumers that desire savings or the very typical one-year service contract. There are two basic value propositions that drive consumers to switch to an alternative electric provider. The first is savings, while the second is long-term price stability. However, in Massachusetts today an alternative supplier can rarely make meaningful savings or one-year offers as compared to the utility's six-month basis service rate.

First, with regard to offers designed to provide savings, retail suppliers are hard put to offer a value proposition to prospective consumers. This is because, when comparing the basic service rate to a retail offer for savings, consumers are only able to receive, at best, three to four months of real guaranteed savings from the supplier. That is, while the basic service rate is only known for six months because it is competitively bid every six months, a supplier requires some time to process an offer to play "catch up" with the movement in the basic service pricing. In general, for a typical direct mail offer the process is as follows: obtain a refreshed customer list from the utility each quarter, process/segment the data, solicit wholesale supply offers and hedge supply, perform credit checks of customers, train their telephone center, perform printing, perform mail-house processing, actually mail the offer, allow consumers time to decide, process the consumer's offer acceptance, allow for a three day rescission period, allow the utility time to process the enrollment, and finally wait until the next monthly meter read date of the customer-which could be close to a month away <u>after</u> all of the previous tasks are performed. The entire process, at a minimum, takes two to three months and, by the time the process is completed, the consumer is presented with only a brief window of actual guaranteed savings. Three to four months of savings is not overly compelling to a consumer.

As for the ability of suppliers to offer meaningful one-year contracts in Massachusetts, a similar problem exits. Nationally, consumers today are accustomed to entering into one-year service contract terms. As compared to the basic service term of six-months, a one-year retail offer is also not overly compelling. In other words, six more service months is not perceived by many consumers as containing incremental value.

Indeed, our experience is that customers will remain "frozen" and will not switch because they fall into either one of two camps: either they will not switch since savings cannot be guaranteed for any length of time or because they already have a term closer to the more typical and familiar one year term. Combined, these two segments represent most of the consumer market preference—those customers who are looking for reasonable to significant savings (5 to 20% guaranteed savings) or those looking for the one-year service term. Thus, the reality in Massachusetts is that competitive suppliers have been left with severe impediments to reaching these core customer segments.

The only viable segment remaining are those customers who like long-term (2 to 5 year) price stability. As such, the only type of offer that has a chance to be successful is a long-term price stable offer. Yet, since the appeal of such an offer is not to the largest segments of the market, switching will remain very limited unless the basic service term is changed.

Massachusetts must move to monthly bid market based service rates, as is the case in most successful retail natural gas markets today. Monthly market based electric rates are also effectively utilized in New York. Monthly market bid rates can also eliminate pricing discrepancies and various risk components, including market timing and migration risk that can exist between wholesale and retail prices. An alternate, but less than ideal solution is to bid and set a one-year fixed basic service rate. By eliminating the six-month basic service rate term, the vast majority of consumers who are looking for savings could make clear decisions for savings because their comparison basic service rate is known and fixed. Suppliers could increase sales rates with an increased number of satisfied customers and thus lower their acquisition costs, also resulting in benefits to consumers.

2. **Encourage Municipal Aggregation:** Dominion Retail submits that the DTE should make aggregation by municipal entities easier. The successful aggregation program in Ohio is a model to review. These large buying groups bring more buying power to their participants and lower the acquisition costs of retail suppliers, ultimately lowering consumer prices as a result. Consumers also feel an increased sense of decision security because they have a buying expert helping the group with decisions.

3. **Implement Retail Auctions:** Dominion Retail strongly advocates the adoption of retail auctioning in Massachusetts. Retail auctions can have the single largest and quickest impact on consumer switching and participation. Similar in nature to municipal aggregation, except that the actual aggregation is actually managed by the regulatory agency, consumers realize rate savings that are achieved through lower supplier acquisition costs. To be most effective, these auctions should be opt-out in nature but allow consumers the freedom to migrate out of the service at any time without penalty. The consumers participating in these auctions learn more about retail options and become more comfortable making future buying decision in the marketplace. The "Market Share

Threshold" retail auctions performed on the PECO electric utility system in Pennsylvania represent an excellent model.

4. **Purchase of Receivables Program**: Dominion Retail also encourages the DTE to implement a Purchase of Receivables program. Under such a program, the utility enters into an agreement with suppliers to purchase and guarantee the customers' receivables. This feature will have a large impact for retail marketing in Massachusetts. The discount rate must be fair and reasonable and should mimic the utilities' actual bad debt expenses- usually under 2.0%. Under the program, retail offers can be made to all customers, regardless of credit history. Without it, and depending on an individual supplier's credit requirements, anywhere from 25 to 35 percent of the marketing prospects are eliminated from marketing lists due to credit concerns. Dominion Retail agrees that utility consolidated billing is a necessary component of the purchase of receivables service. A Purchase of Receivables program is essential to a strong retail program in any state. If more customers are able to participate in the competitive arena, without increased credit risk, the market is more economically viable and will remain more attractive to retail suppliers. Also, and most importantly, all customers, regardless of credit history, are able to take advantage of any viable retail offers. Since the cost of bad debt is currently allocated among all utility customers through tariff rate making, a Purchase of Receivables program would not change the current cost allocation

5. **Allow "On-Site" Call-Recorded Enrollments:** The current choice rule for telephonic enrollments dictates that customers can only enroll with a retail supplier if the call is recorded and verified through a third-party off-site from the retailer. Respectfully, Dominion Retail submits that this rule is an "over done" approach to protecting consumers from slamming. The third-party requirement is a major inconvenience to

customers and also unreasonably burdens consumers and suppliers with additional and wholly unnecessary acquisition costs. First, it adds twice the amount of call time for the consumer and is extremely redundant in content. Moreover, its adds unnecessary complexity and confusion to the enrollment process. For instance, in those cases where retail campaign economics cannot support the added third-party verification costs, thus necessitating the elimination by the supplier of telephonic enrollment altogether, many customers nonetheless call in trying to sign up by telephone. When they are told they cannot and must enroll by internet or mail, they often become confused and frustrated and never do follow up on enrollment. This state of affairs need not continue. All of Dominion Retail's enrollment calls are recorded in house, which is perfectly acceptable as proof of enrollment in all other jurisdictions where the Company currently serves energy commodity customers. The same should be permitted in Massachusetts. Telephone enrollment records, like hard copy paper records, can readily be used for verification in cases of reported enrollment discrepancies, thus saving consumers the additional costs associated with third party verification costs. To the extent that the DTE still has any concerns, Dominion Retail suggests that the existing third-party verification rule be kept in place only insofar as it applies to outbound solicitations initiated by the supplier.

6. **Account Number Requirement:** Customers are now required to provide retail suppliers their utility account numbers for enrollment. This necessitates the consumer first physically locating his/her bill then manually transcribing the lengthy sequence of digits onto the mail piece or internet screen to be sent back to Dominion Retail or reading it off to the Dominion Retail sales agent. This burdensome process is ripe for error and leads to delay and lower sales rates as a result of the inefficiency it causes. As a cure to

this problem, Dominion Retail submits that the utilities should provide the account numbers directly to suppliers through an electronic, yet confidential, process. The Company's experience in other jurisdictions where this is done is that 20% more customers will enroll in a direct mail offer if the account number is not a requirement from the consumer. There are proven processes in other states that can be utilized in Massachusetts that can even enhance consumer protection without this acquisition cost burden. One relatively easy process that works well for direct mail is to have the consumer agree in the offer acceptance to have the utility provide their account number to the supplier. The supplier then sends a customer list file to the utility containing the enrollments and requesting the specific account numbers (utilizing a customer identifier number to reference the correct customer). The supplier then would follow the same process utilized today for EDI enrollment by sending the account number back to the utility in the proper enrollment format. The written affirmative consent documents (reply cards) that customers sign and return would always be available for audit in cases of any enrollment discrepancy. This process is currently being utilized successfully on the Cinergy Gas & Electric ("CG&E") in Ohio.

7. **Fixed to Variable Basic Service Rate Adjustment**: Currently, when a residential customer switches during the six month basic service term, the customer's bill is adjusted as if the customer was receiving the monthly variable rate as opposed to the fixed six month rate. The fixed rate is the basic rate the residential customers are given unless they opt-in to the monthly variable rate. Depending on whether the variable monthly rates the customer has already paid are higher or lower than the fixed rate up to that partial six-month basic rate term, there is either a debit or credit for each month that the customer has already paid (up to five months). This credit or debit is made as an

adjustment on the very first bill after the customer switches to a retail supplier. This can be a very large adjustment. If this is a debit, it may be perceived by the customer as a customer switching fee and/or penalty for switching to a retail supplier. As a consequence, it can create customer confusion, distrust and overall bad customer relations. It also unfairly insulates the basic service wholesale supplier from customer migration risks that suppliers such as Dominion Retail must face. Accordingly, Dominion Retail submits that the adjustment should be eliminated altogether.

8. **Point of Application for Utility Service Offers:** Currently in Massachusetts, those customers who move and relocate out of their current utility area have their retail service ended. A supplier must then replace this customer by re-spending acquisition dollars to acquire a replacement customer. However, this replacement occurs for free for wholesale suppliers of basic service. Wholesale suppliers are allowed an automatic back-fill of a customer when an existing customer moves or leaves the utility service territory. This added acquisition cost (migration risk) is yet another hurdle the suppliers face in attempting to make meaningful offers to customers. One solution to this issue has been very recently addressed in Connecticut. The State of Connecticut recently passed a law that will allow the utilities to offer the customer any current retail offers from licensed suppliers at the time that customer calls the utility to apply for service connection. The intent of this program is to encourage retail offers and to take the order at the time the customer calls the utility. This extremely efficient concept of course requires cooperation from the utility but can truly make the entire retail choice process more worry free for the consumer. It also helps the retailer reduce acquisition costs and make more value-added offers to the public. Dominion Retail submits that the DTE should consider a similar change

9. **MECO proposal for a G2/G3 Auction:** As previously noted herein, Dominion Retail is in favor of Retail auctions. They allow customers to learn through experience that being served through a retail supplier can be a positive experience. Normally, the Company would desire a much longer term than the 3 months recommended in the MECO proposal. However, in this particular case, unless MECO is initially willing to substantially change this retail auction to an annual or multi-year term with strict migration rules, Dominion Retail can agree to a three-month term with no migration limits. Going forward from there, Dominion Retail suggests a longer term for this retail auction service on a phased-in basis: after the initial 24 months, move to holding a retail auction for all of Basic service customers as MECO suggested in its April 2004 proposal. One additional note: in order to better permit suppliers to provide meaningful, market-sensitive bids, MECO should limit the time that the bids must be held open and should keep to a minimum the amount of time that elapses from the point when the rates are awarded to when the energy actually flows.

10. **MECO proposal for a POWER SWITCH program:** Dominion Retail fully supports this proposal. It is a great start to get customers motivated to switch. The Company also suggests moving towards retail auctions for these classes of customers in the future in a vein similar to that proposed by MECO in year's proposal. Dominion Retail feels strongly that when a customer enrolls under the POWER SWITCH program with MECO, that enrollment should be deemed an opt-in enrollment bearing affirmative consent. Thereafter, when the supplier and customer agree on a follow-on arrangement beyond the initial two months, the customer's consent at that time must be considered a be a change of service on an *opt-out* basis that requires no additional signature by the customer. This is currently consistent with the Massachusetts Choice rules. That is,

after an initial contract term expires, retail suppliers currently notify customers of any price adjustments via a renewal letter. The customer is not required to sign another agreement, but if the customer does not want to renew at the adjusted price, he must notify the retailer and opt-out of the service. The customer can then return to basic service or is free to switch to another retailer. To require the consumer to furnish another affirmative consent will burden the process and result in much lower "permanent" switching rates. Dominion Retail submits that one way to make this opt-out feature palatable for customers and consumer groups is to add a stipulation that the customer can cancel anytime without penalty after the initial two months.

In conclusion, Dominion Retail appreciates having had the opportunity to comment further in this proceeding and respectfully requests that the Department carefully consider its comments.

Respectfully submitted,

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July 22, 2005

CERTIFICATE OF SERVICE

I hereby certify that on this day I served the foregoing document and ten (10) copies to Secretary Mary L. Cottrell, Department of Telecommunications and Energy, by overnight mail. I also served this filing via electronic mail to dte.efiling@state.ma.us and jeanne.voveris@state.mas.us

Dated at Pittsburgh, PA this 22nd day of July 22, 2005.

Gary A. Jeffries